UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

August 29,2006

Center for Regulatory Effectiveness
Suite 700
11 Dupont Circle, N.W.
Washington, D.C. 20036

Dear Mr. Tozzi,

The International Trade Administration (ITA) has received your Request for Correction (RFC) of our 2006 report titled, "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices." As explained below, we are granting your request by making publicly available certain additional information.

1. Key Finding #4 states that "many U.S. SCP manufacturers have closed or relocated...to Mexico where sugar prices are about two-thirds of U.S. prices."

   CRE RFC: The United States Department of Agriculture (USDA) has documented that the domestic price for refined sugar in Mexico has been higher, not lower, than in the U.S.

   ITA Response: The ITA acknowledges your comments. While it is true that Mexico's domestic refined sugar price has been higher than that of the United States, this price comparison is not relevant for the analysis used in the ITA study. The appropriate comparison to make is between the prices of refined sugar received under Mexico's re-export program (PITEX) with U.S. domestic sugar prices. PITEX allows for lower Mexican refined sugar prices. The re-export program enables domestically produced sugar to be sold as raw material for further processing by Mexican food manufacturers. The manufacturers must process the sugar and export the final processed product.

   In a study completed by Peter Buzzanell and Associates, Inc. for the American Sugar Alliance, Buzzanell reports that the re-export program price of refined sugar in Mexico is 18 cents per pound. A contact at the Economic Research Service at USDA confirmed that refined PITEX sugar prices ranged from 15.9 cents per pound to 18 cents per pound. Thus, based on these sources, prices of Mexican refined sugar intended for export are lower than prices of U.S. produced refined sugar. Additional information providing a citation for these sources will be made publicly available and online.

   Source: USDA's Economic Research Service, Sugar and Sweeteners Outlook, May 2004

2. Key Finding #2 states that "For each....growing and harvesting job saved through high **U.S.** sugar prices..."

   CRE RFC: The study cited by ITA as the source for their estimate of the number of "growing and harvesting jobs saved" clearly stated that the analysis considered only sugar processing jobs. CRE recently received written confirmation from the study's lead author stating that growing and harvesting jobs were not considered in the analysis cited by ITA.

   ITA Response: The ITA acknowledges CRE's Request for Change however, this key finding was based on the best available data and sources. The ITA study's usage of the term "growing and harvesting" includes refining, which reflects the structure of the sugar industry, referred to as vertical integration in which growers have been buying out refineries.

   The ITA relied solely on the Federal Reserve Bank of Dallas 2002 Annual Report as it was produced by a reliable institution and constituted the most recent data available. The Federal Reserve study was relevant for the number of jobs saved, while the Institute for International Economics' (IIE) study was relevant for background on the sugar program and the economic costs of the program. It is appropriate to cite both studies.

   The Federal Reserve Bank of Dallas 2002 Annual Report states, "Because of inflated prices, a small number of growers and refiners pocket an estimated $400 million a year" (page 15). The following section, titled Protection's Price, discusses the various **U.S.** industries that are protected, including benzoid chemicals, softwood lumber, and sugar. Exhibit 11, "The High Cost of Protectionism" (page 19) lists sugar as an industry where protectionism saves 2,261 jobs at a cost of $826,104 per job. The clear implication is that the sugar industry includes growers and refiners. Harvesters are part of the grower/refiner matrix and are therefore included in this analysis. Based on this information, ITA used this 2,261 figure from the Federal Reserve to represent the number of jobs saved in **U.S.** sugar growing, harvesting, and refining.

   In addition, the 6,400 jobs lost in the confectionery industry actually undercount the effects of high **U.S.** sugar prices on all sugar containing product industries. This figure is an aggregate of data taken from press reports that specifically stated high sugar costs as a reason for relocation of factories. Additional information providing the citations for the press reports will be made publicly available and online.

   The fact that high **U.S.** sugar prices are hindering competitiveness in the U.S. confectionery industry is also supported by other studies such as USDA's "U.S. Market Profile for Confectionery Products," which also is referenced in the study.

We appreciate CRE's concerns and are glad to have the opportunity to address these issues. Please feel free to contact me at 202-482-2311 or praveen.dixit@mail.doc.gov with any further questions or comments.

Sincerely,

Jeffrey Anspacher for Praveen Dixit

Praveen Dixit
Director, Office of Competition and Economic Analysis
International Trade Administration
U.S. Department of Commerce